



IUI, The Research Institute of Industrial Economics
Stockholm

IUI YEARBOOK 1996/97

Foreword

The high and seemingly persistent unemployment that is particularly tormenting the European economies, stands in sharp contrast to the development in the US. A distinctive feature that separates the US economy from that of most other countries, is its role as the world's leading supplier of high-technology products. Recent findings have shown that even though the introduction of new technology may be labor shedding for the individual firm, the strongest growth in total labor demand emanates from high-technology industries. Hence, the unemployment problem seems to be closely related to the structure of production.

Production of advanced goods and services is conditioned on access to internationally competitive human capital. In that perspective, I would like to stress two areas of crucial importance: the education policies, and the return that young individuals can expect to obtain from investing in expensive and time-consuming education. The quality level of education must comply with the highest international standards. And without compensation to educated individuals that levels with other countries, a process of brain-drain is likely to occur. Obviously, a failure in addressing these policy issues will undermine the prospects of sustainable future growth.

Research, guided by sound academic principles, constitutes the foundation of well-balanced economic policies. It is my firm belief that IUI, with its research focus on the internationalization of the Swedish economy, and the role of human capital in the growth process, is well prepared to provide valuable insights on how to improve the future performance of the Swedish economy.

Stockholm 1997

Håkan Mogren
Chairman of the Board

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Presentation of IUI

IUI (Industriens Utredningsinstitut) is an independent non-profit research institution founded in 1939 by the Federation of Swedish Industries (Sveriges Industriförbund) and the Swedish Employers' Confederation (Svenska Arbetsgivareföreningen). Located in central Stockholm, IUI conducts research on economic and social issues of importance for long-term industrial development in Sweden. Both empirical and theoretical research is carried out. The emphasis is, however, on applied economics.

The academic profile at IUI has always been high. A considerable number of dissertations in economics originate from IUI and a significant part of the IUI's work has been published in international scientific journals and books. Many Swedish professors of economics have also spent part of their research careers at IUI. It is certainly the aim of IUI to continue to meet the challenges posed by the quality requirements of the international academic community. In order to achieve this aim, the research is concentrated on a limited number of areas.

Currently the two main research programs pursued at IUI are: (1) Human Capital, Knowledge Accumulation and Economic Growth and (2) Industrial Organization and International Specialization. At present, a third research area of importance is the Economics of the Welfare State.

Organization

The majority of the IUI research staff today hold a doctorate in economics. The size has been fairly stable over the years, comprising the equivalent of 15–20 full-time researchers.

IUI's Board of Directors is made up of leading industrialists. The Board appoints the director of IUI and approves the budget and research projects. The organization of the research projects follows academic principles and the researchers publish their results in academic journals. Affiliated researchers have full academic freedom in their choice of methodology and, of course, in the conclusions they draw. The Board neither approves, nor is it responsible for any results published.

IUI conducts open academic seminars and maintains many formal and informal relations with leading universities and other research institutions around the world. International contacts are extensive and foreign scholars regularly visit the institute. Generous contributions from the Marianne and Marcus Wallenberg Foundation make many of these activities possible. During 1996 IUI also initiated a seminar series on "Human Capital and Economic Growth", where internationally

leading scholars are invited to give their views on current research and policy issues in this field. Without financial support from Astra AB and Telefonaktiebolaget L M Ericsson AB, this highly appreciated seminar series would not have been accomplished.

Doctoral students are also offered the opportunity to work on their dissertations at IUI. Throughout the years, 54 dissertations have been concluded at IUI.

Financial Sources

The principals of the Institute, the Federation of Swedish Industries (Sveriges Industriförbund) and the Swedish Employers' Confederation (Svenska Arbetsgivareföreningen), account for most of the budget. The financial support comes primarily from various research funds. Generous financial support is gratefully acknowledged from: The Axel and Margaret Ax:son Johnson Foundation, the Swedish Council for Work Life Research, the Swedish Council for Research in the Humanities and Social Sciences, the Swedish Competition Authority, the European Union Directorate XII – Targeted Socio Economic Research, the National Board of Civil Emergency Preparedness, Telia AB, the Bank of Sweden Tercentenary Foundation, the Joint Committee of the Nordic Social Science Research Councils, the Royal Swedish Academy of Sciences, the National Board for Industrial and Technical Development, Jan Wallander's and Tom Hedelius' Foundation for Research in the Social Sciences, and the Marianne and Marcus Wallenberg Foundation.

Board of Directors

The Board of Directors is appointed by the principals and comprises leading industrialists, as well as the directors of the two principals.

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Dan Johansson

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Petter Lundvik

Erik Mellander

Eva Meyerson

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News at the IUI

The reorganization and specialization of IUI's research agenda has prompted a change of IUI's English name. The new name, which became official in spring 1997, reads *The Research Institute of Industrial Economics*.

IUI has been asked to undertake the 1998 Economy Policy Report (SNS Konjunkturrådsrapport). The findings of Professor Ulf Jakobsson (ed.) together with IUI-researchers Pontus Braunerhjelm, Stefan Fölster, Magnus Henrekson, and Professor Lars Bergman, Stockholm School of Economics, will be presented early in 1998.

As regards IUI's employees, two additions to the research staff were made in the academic year 1996/1997. Petter Lundvik, who earned his Ph.D. at the Institute for International Studies (IIES) in 1992, has by now been at IUI for almost a year. He will work on issues related to institutions, growth and entrepreneurship. Marcus Asplund, affiliated to the Stockholm School of Economics, has joined IUI on a part time basis. His main research interest is in the field of applied industrial organization. Johan Lindén has been offered a lectureship at the newly inaugurated Södertörns Högskola and left IUI in June 1997.

Also among research assistants, several changes has taken place. Erika Ekström, John Ekberg and Michael Salabasis were all recruited in 1997. Erika Ekström will work on the project on *Human Capital and Economic Growth*, Michael Salabasis is engaged in Eva Meyerson's project on corporate governance, while John Ekberg is involved in a comparative study on price differentials between the US and Sweden. They partly replace former research assistants Harri Kanerva, who left IUI for continued studies, and Patrik Karpaty, who has joined the Boston Consulting Group. Lennart Grundberg also left IUI, when offered a position at the European Commission. His responsibilities, i.e. gathering and organizing IUI's different data banks, have been taken over by Pavlos Petroulas, previously at Stockholm University.

Among the administrative staff, Marie-Louise Falk, IUI's accountant since 1992, left to work abroad. Maria Hedström, former chief secretary, was appointed accountant, while her place was filled by Elisabeth Gustafsson. She was formerly employed by a law firm in Stockholm and joined IUI in early spring 1997. Finally, Giovanna Arizcurinaga has returned from her study leave, with the result that her temporary replacement, Gunnel Mattsson, also left IUI.

IUI would like to thank all former colleagues and friends for their efforts at IUI and wishes them good luck with their new positions.

Other Activities

Marcus Asplund began his affiliation with IUI during spring 1997. He will participate in IUI's research on issues in empirical industrial organization.

Pontus Braunerhjelm heads IUI's research project on multinational corporations and international trade. He is also, together with Professor Bo Carlsson, Case Western Reserve University, Ohio, involved in a comparative study on the pattern of industrial dynamics in Sweden and the US. During 1996/1997 he had one article accepted by *Economic Letters* and four articles published in *Ekonomisk Debatt*. He has also submitted several contributions to books internationally published. Pontus Braunerhjelm presented papers at the following conferences: the European Economic Association (EEA), Istanbul, the Economic Association for Research in Industrial Economics (EARIE), Vienna, Allied Social Sciences Association (ASSA), New Orleans, and the International Finance and Trade Association (IFTA), Porto. During spring 1997 he was appointed a member of the 1997 SNS Konjunkturråd and he is also an associated researcher with SNS.

Karolina Ekholm has been involved in the IUI's research on foreign direct investment and international specialization. She has had an article about the treatment of intra-firm trade in services in empirical studies of international trade accepted by *Review of International Economics* and another about the effects of high-tech subsidies (co-authored with Johan Torstensson) accepted by *Canadian Journal of Economics*. Together with Johan and Rasha Torstensson she has also written papers that have been published in *World Economy* and *Applied Economics Letters*. Furthermore, she has presented papers at several conferences, e. g. European Economic Association's and Econometric Society's (EEA and ESEM) conferences in Istanbul and Allied Social Sciences Association's (ASSA) conference in New Orleans.

Erika Ekström, a Ph.D. student in economics, joined IUI on a part-time basis in March 1997 as a research assistant in the Human capital research project. Her own research is in development economics with emphasis on income distribution and labor market discrimination.

Gunnar Fors worked on different issues relating to foreign direct investment and multinational enterprises. During the year he has published papers in *Journal of Industrial Economics* and *Ekonomisk Debatt*. Together with Magnus Blomström and Robert E. Lipsey, he has written a paper forthcoming in *Economic Journal*. He presented papers at the following conferences; European Economic Association (EEA), Istanbul, Allied Social Sciences Association (ASSA), New Orleans, International Trade & Finance Association (ITFA), Porto, and was invited

to present a paper at the Royal Economic Society's meeting in Stoke-on-Trent, England. Besides research, he has also been involved in teaching at the Stockholm School of Economics and undertook a study for SIDA (Sweden's development agency) about private capital flows to Africa.

Stefan Fölster pursued his research on the role of the welfare state and industrial policy. He recently published articles in the *Journal of Economic Behavior and Organization* (with Georgi Trofimov, "Industry Evolution and R&D Externalities", 1997) and in *Kyklos* ("Savings account based social insurance", 1997). In addition he has written several studies for the Expert Group on Public Finance (ESO), and has recently joined ESO's board of directors. At present his work concerns the relation between entrepreneurship, saving and taxation.

Mattias Ganslandt, a Ph.D. student at Lund University, continued his work on strategic interaction in a multi-market context. He successfully defended his licentiate thesis "Multi-Market Competition and Coordination in Games" in May 1997. He also presented papers at the European Economic Association (EEA) and Econometric Society (ESEM) meetings in Istanbul, the Economic Association for Research in Industrial Economics (EARIE) meeting in Vienna and the International Finance and Trade Association (ITFA) conference in Porto. He also wrote papers on coordination in games which were presented at The International Conference on Simplicity in Tilburg and the 11th Conference on Game Theory and Applications.

Magnus Henrekson continued to work on issues of economic growth and employment creation. He completed the paper "Growth Effects of Economic Integration" (with Johan and Rasha Torstensson). The revised and extended version of this paper has been accepted for publication in the *European Economic Review*. Together with Stefan Fölster he has also written the paper "Public Sector and Economic Growth: A Critique of the Critics" which critically evaluates recent findings by other researchers that a large public sector may not impede economic growth. Last year Magnus Henrekson devoted most of his time to work with Steven J. Davis, University of Chicago, on the project "Industrial Policy, Small Business, and Economic Performance: A Comparison of Sweden and the United States", planned to result in a book and a series of papers.

Ulf Jakobsson is director of IUI. He has been an active participant in the public debate with numerous articles in newspapers, journals and books. He is now chairman of the Economic Policy Group of SNS which will publish their report early in 1998. He is also heading a newly started research project on the explanations of the high domestic price level in Sweden.

Dan Johansson, successfully defended his licentiate thesis "The Number and the Size Distribution of Firms in Sweden and Other European Countries" at the

Stockholm School of Economics. Dan participated in the cross-country analysis of clusters and industrial dynamics in Sweden and the US, investigating the economic performance in the perspective of different institutional settings, emphasizing the size of the governmental sector and labor market regulations. Special interest is given to the flexibility of firms, and the impact of new ways of organizing production on flexibility. Together with Magnus Henrekson, he published an article in *Ekonomisk Debatt* on the effects of Swedish institutions on firm growth.

Eugenia Kazamaki Ottersten was a visiting scholar at the department of economics at Stanford University for most of the year. She has been working on the demand for labor quality and gave a presentation of her most recent findings at the Business School at Stanford. In 1997 she was appointed associate professor at Stockholm University. She continues with her research in the EU-project on new skills and with the related human capital topics.

Assar Lindbeck has completed his manuscript on "The Swedish Experiment" for the *Journal of Economic Literature*. He has also published a number of papers in various international publications about the modern welfare state. Together with Dennis J. Snower he has written three theory papers about firms' reorganization and its consequences for the labor market. Jointly with Jörgen W. Weibull and Sten Nyberg he analyzed the interaction between economic incentives and social norms.

Petter Lundvik joined IUI in August 1996. During the year he has been working with generational accounting for Sweden, and how institutions affect firms' external financing and productivity. He presented papers at the European Economic Association (EEA) and Econometric Society's (ESEM) meeting in Istanbul.

Erik Mellander presented ongoing work (with Eugenia Kazamaki Ottersten and Thomas Lindh, Uppsala University) on how a firm's training affects its performance and labor demand, at several international conferences; a productivity workshop at the University of Georgia, an EU seminar in Amsterdam and at an Applied Econometrics Association conference in Maastricht. Together with Eugenia Kazamaki Ottersten he continued the work in the EU project "Education and Training: New Job Skill Needs and the Low-Skilled" which involves participants from France, the Netherlands, Sweden, Portugal and the UK. He is also engaged in the Planning Survey, the annual survey of companies in the Swedish manufacturing industry administered jointly by the Federation of Swedish Industries and IUI.

Eva Meyerson's research is focused around two main topics: wage, risk, productivity and gender, and corporate governance issues. Within the first area a report on gender wage gap in Sweden was prepared and presented in a short version in *Ekonomisk Debatt*. A comparative study on gender wage gap for three countries was published in *Ekonomiska Samfundets Tidskrift*. She also presented a

paper on gender, wage and productivity at the American Sociological Association in Toronto, at Stanford University and at Monash University, Australia in 1997. This work is joint with Trond Petersen and Vemund Snartland. Her second research area, corporate governance, is focused on longitudinal work on the relationship between product markets, ownership structure and interlocking directorates and is carried out together with Karl-Markus Modén and Eva Lindblad. The paper "Is Monitoring and Incentive Pay Complements or Substitutes?" was presented at an executive compensation conference in Aarhus and at the American Sociological Association in 1996 in New York. Eva Meyerson tutors doctoral and master students at the Stockholm School of Economics and at the department of Business Administration at Stockholm University.

Karl-Markus Modén's research focuses on different aspects of investments, ranging from finance related issues to determinants and home country effects of inward foreign direct investments (FDI). The latter project emphasizes the impact of inward foreign direct investment on productivity and competition in the Swedish manufacturing sector. A description of the pattern and extent of inward FDI will appear in a forthcoming book on the geography of FDI in late autumn. Karl-Markus Modén also had an article accepted for publication in the *Management International Review*. The project Competition and Ownership Concentration, in which Karl-Markus Modén has a key role, will be completed in 1997.

Lars Oxelheim maintained his affiliation with IUI while holding a full-time professorship in International Business at Lund University. His main line of current research concerns the implications of macroeconomic disturbances on firm performance. Lars Oxelheim has this year completed a book (co-authored with Clas Wihlborg) on this theme - *Managing in the Turbulent World Economy - Corporate Performance and Risk Exposure* - published by John Wiley & Sons Ltd, London. He was also the lead author of another book, *Strategies to Internationalize the Cost of Capital* (co-authored with five Nordic and American researchers), that was completed during the year to be published by Handelshögskolens Forlag, Copenhagen. He had an article (co-authored with Karl-Markus Modén) accepted by *Management International Review*. His book on the cost of policy-making - *Financial Markets in Transition - Globalization, Investment and Economic Growth* - was during this year published in a paperback edition by International Thomson Business Press, London and New York. During the year Lars Oxelheim was appointed chairman of the Swedish network of researchers focusing on economic aspects of the EU, initiated by the Swedish government.

Pavel Pelikan continued his work on institutional change, the evolution of industrial organizations, and economic policy. In June 1996 he was invited to

participate, together with Douglass North and Gordon Tullock, in Liberty Fund Symposium on "Property Rights and Visions of Common Good" in Colonial Williamsburg. During the spring 1997 he completed a study formally modeling the use of scarce economic competence in society, which helps to clarify the social value of financial markets and the limitations of targeted industrial policies. He was invited to present this study in seminars at DELTA Institute in Paris, Charles University in Prague, Albert-Ludwigs-University in Freiburg in Breisgau and Max-Planck-Institute in Jena. He continued to serve as a member of the Editorial Board of the *Journal of Evolutionary Economics*.

Pavlos Petroulas' main duties are to assist the other researchers in their empirical work. In addition to keeping track of IUI's databases, he has predominantly been engaged in a project on FDI involving Pontus Braunerhjelm and Robert Lipsey, NBER and Queens College. Pavlos Petroulas also works closely with Stefan Fölster and Magnus Henrekson.

Per Skedinger worked on two projects, one concerning international differences in the return to university education (with Erik Mellander) and one on the administrators' incentives in Swedish labor market policy (with Sten Nyberg). He published "Wage Flexibility and Unemployment Dynamics in Regional Labour Markets" in *Labour Economics*. He acted as opponent on Stig Blomskog's preliminary thesis manuscript "Essays on the Functioning of the Swedish Labour Market" at Stockholm University. In January, Per Skedinger was appointed secretary of the Economic Council of Sweden, a group of academic economists commissioned by the Swedish government. He has also served as associate editor of *Arbetsmarknad & Arbetsliv* (until February).

Roger Svensson entered a new research area focusing on the extent and structure of international investment projects. He undertook a pre-study about Swedish investment projects abroad and presented it at a seminar arranged by the International Council of Swedish Industry. Another study, "Three Empirical Models for the Entry Mode Choice in Foreign Direct Investment", was accepted for publication in *Applied Economics Letters*. He also worked with two chapters about the choice of entry mode and agglomeration in foreign production, which will be published in a forthcoming book on the geography of multinational firms.

Jörgen Weibull worked on three research themes: the political economy of the welfare state, connections between market conditions and the internal efficiency of firms, and evolutionary game theory. He had one article, "Evolutionary Selection against Dominated Strategies" (with J. Hofbauer), published in *The Journal of Economic Theory*. He also contributed the following papers to edited books: "Evolutionary Selection Dynamics and Irrational Survivors", with J. Björnerstedt,

M. Dufwenberg and P. Norman, in Wulf Albers et al. (eds.), *Understanding Strategic Interaction. Essays in Honor of Reinhard Selten*, Springer Verlag, Berlin, 1997, "Nash Equilibrium and Evolution by Imitation", with J. Björnerstedt, in K. Arrow et al. (eds.), *The Rational Foundations of Economic Behaviour*, Macmillan, London 1996, and "Evolution and Rationality: Some Recent Game-Theoretic Results", with A. Banerjee, in B. Allen (ed.), *Economics in a Changing World, Volume 2, Microeconomics*, Macmillan, London 1996. In addition he wrote a summary on the work of the Nobel laureates in economics, "Årets ekonomipristagare: James Mirrlees och William Vickrey" (in Swedish), with K.-G. Löfgren, published in *Ekonomisk Debatt*. Jörgen Weibull also completed a number of working papers which are listed below in the IUI's Working Paper. During the year, he worked as associate editor of *Econometrica*, and presented research at Cornell University, Johns Hopkins University, Princeton University, and at the workshops Incentives and Organizations (Copenhagen University, October 1996) and Social Learning (Alicante University, May 1997).

Conferences, Workshops and Courses

The Astra-Ericsson seminar series on "Human Capital and Economic Growth", initiated in spring 1996, contained presentations of research contributions from three well-known and highly respected American scholars. First, Professor Paul Segerström, Michigan University, gave a mini-course on issues related to the new growth theories which was attended by economists from IUI, Stockholm School of Economics and Uppsala University. Professor Eli Berman, Boston University, gave two seminars on skill biased technological change and international trade. The last lecturer in this year's Astra-Ericsson seminar series was Professor Mancur Olson, University of Maryland, who presented a follow-up of his study from the 1980s on the Swedish economy, named "How Bright are the Nordic Lights? - The Future of the Nordic Welfare States". His results were commented upon by Kjell-Olof Feldt, Chairman of the Swedish Central Bank, Professor Assar Lindbeck, IIES and IUI, Birgitta Swedenberg Deputy at SNS, and associate professor Villy Bergström, former director of FIEF. Mancur Olson also gave a more academic seminar where he presented joint work with Professor Avinash Dixit.

IUI, being a contractor for a EU-funded project on "Inflation Persistence, Liquidity Effects and Monetary Policy in Russia", also organized a workshop in June on this topic, which was attended by Russian and Swedish researchers.

Current Research Programs

Program 1 Knowledge Accumulation, Human Capital and Economic Growth

- 1.1 Empirical Analyses of the Relations between Education, Training, Productivity and Wages
- 1.2 Economic and Industrial Structure in Europe - International Specialization and Adjustment
- 1.3 Entrepreneurship and Growth

Program 2 Industrial Organization and International Specialization

- 2.1 Foreign Direct Investment (FDI), Production Specialization and Trade Patterns
- 2.2 Effects of Inward Foreign Direct Investment on Competition and Productivity in the Swedish Manufacturing Sector
- 2.3 International Investment Projects, Contractors and Technical Consultancy Firms
- 2.4 Institutions and Industrial Dynamics: A Comparative Analysis of New Zealand, USA and Sweden
- 2.5 Industrial Policy, Small Business and Economic Performance: A Comparison of Sweden and the United States
- 2.6 The Swedish Price Level in an International Perspective

Program 3 Economics of the Welfare State

- 3.1 Welfare State Dynamics
- 3.2 The Design of the Welfare State, Capital Formation and Growth
- 3.3 Institutions and Economic Performance

1 Knowledge Accumulation, Human Capital and Economic Growth

Contemporary economic research identifies knowledge accumulation as the prime engine of growth. Growth is endogenized through investment in knowledge which, in contrast to other factors of production, is not subject to decreasing rates of return. Differences in the rate of knowledge investments have been put forward as the main explanation of differences in growth performance on the macro as well as on the micro level. IUI's research in this area has been oriented towards microeconomic issues, particularly the role of education and the functioning of the labor market. To secure sustainable growth it is necessary that the return to investments in education compensates its costs. Similarly, without the right incentive structure within the economy, labor may not be optimally allocated from a social point of view. International differences in incentive structures may also induce labor to move between countries. Thus, a proper microeconomic setting is necessary for growth to materialize on the macro level.

1.1 Empirical Analyses of the Relations between Education, Training, Productivity and Wages

Several studies indicate that the return to investment in education is quite low in Sweden, as compared to a number of other countries. One purpose of this project is to examine to what extent the low returns are attributable to the Swedish educational system as opposed to conditions in the labor market. Another issue, which also involves international comparison, concerns the relation between education and labor demand. As skills can be upgraded through training outside the regular educational system, the effects of firm-financed training on firms' productivity and costs are also analyzed within the project.

Responsible for the project: Eugenia Kazamaki Ottersten, Erik Mellander and Per Skedinger

Participating researcher: Erika Ekström

1.2 Economic and Industrial Structure in Europe – International Specialization and Adjustment

This project also involves researchers from the Trade Union Institute for Economic Research (FIEF) as well as Lund University. Within this project, the research undertaken at IUI focuses on technological progress, growth, structural adjustment and the demand for human capital.

Responsible for the project: Magnus Henrekson

1.3 Entrepreneurship and Growth

The share of entrepreneurs, or self-employed, varies widely between countries, but also between regions within Sweden. The reasons for this variation are analyzed empirically and theoretically. In particular, we analyze not only how policy parameters like taxes affect entrepreneurship, but also the extent of the role the entrepreneurs' share plays in the policies that are favorable to entrepreneurship. In a second step we analyze how increased entrepreneurship in return affects growth.

Responsible for the project: Stefan Fölster

2 Industrial Organization and International Specialization

Throughout IUI's history, this research program has been of central importance. Since the 1960s the Institute has undertaken comprehensive studies of Swedish multinational corporations (MNCs) and their influence on the Swedish economy. Emphasis has been on the location of production across countries and its implication for the pattern of specialization and trade in the Swedish manufacturing sector. Research in this area emanates from a detailed questionnaire sent out approximately every four years to all Swedish MNCs. This database was updated during 1995.

2.1 Foreign Direct Investment (FDI), Production Specialization and Trade Patterns

IUI's unique database on MNCs will be pooled with country data to analyze the factors that attract FDI and the implications of FDI on small open economies' specialization in manufacturing and trade. Can changes over time be related to shifts in FDI flows and what are the driving forces behind FDI? Are corporate headquarters likely to become more footloose? What impact does a high degree of internationalization have on wages and the demand for labor? How is the process of transferring technology within MNCs organized, and can the impact of such transfer on productivity be measured? Recent theoretical contributions in trade, location and growth will, together with the theory of the firm, be used in the analyses.

Responsible for the project: Pontus Braunerhjelm

Participating researchers: Karolina Ekholm, Gunnar Fors, Mattias Ganslandt and Roger Svensson

2.2 Effects of Inward Foreign Direct Investment on Competition and Productivity in the Swedish Manufacturing Sector

While home country effects of foreign direct investment by Swedish MNCs have been the objective of numerous studies at IUI, less attention has been directed towards the effects of foreign investment in Sweden. This project aims at bridging this gap, emphasizing the impact of foreign investments in Sweden on competition and productivity.

Responsible for the project: Karl-Markus Modén

2.3 International Investment Projects, Contractors and Technical Consultancy Firms

Research on foreign direct investments (FDIs) has focused on how multinational corporations (MNCs) establish manufacturing affiliates abroad either through takeovers or greenfield investments. However, much of international investments are organized as projects, meaning that contractors, together with technical consultants and investment material suppliers, provide complete systems or plants for the clients at site in the host country, e.g. telecommunication systems, transport infrastructure or power plants. Few studies have examined this area of research, although as much as 25 percent of Swedish MNCs' exports and foreign sales are assessed to be related to such projects. The purpose of this research program is to further excavate this area and the effects of foreign investment projects on the home and host economies.

Responsible for the project: Roger Svensson

2.4 Institutions and Industrial Dynamics: A Comparative Analysis of New Zealand, USA and Sweden

The role of institutions in promoting growth and encouraging industrial dynamics has emerged as an important area of economic research. This project aims at analyzing industrial dynamics in three countries characterized by substantial differences in their institutional settings, New Zealand, Sweden and USA (here represented by Ohio). Comparisons of the evolution and average size of establishments and the development of employment, the role and prevalence of clusters, and the forces behind the diffusion and demand of new technology are analyzed.

Responsible for the project: Pontus Braunerhjelm and Bo Carlsson

Participating researcher: Dan Johansson

2.5 Industrial Policy, Small Business and Economic Performance: A Comparison of Sweden and the United States

The purpose of this project is to assess whether differences in key institutions and rules of the game can explain variations in growth, employment creation and industrial and size distribution of employment across countries. The hypotheses are mainly tested by a detailed analysis of institutions and rules of the game in Sweden and the US, and, in a second step, an assessment of whether the defected institutional differences are consistent with observed differences in economic outcomes such as growth, employment creation and industrial distribution of employment.

Responsible for the project: Steven J. Davis and Magnus Henrekson

2.6 The Swedish Price Level in an International Perspective

The relative position of the Swedish economy has deteriorated significantly during the last 25 years. When it comes to GDP per capita, measured in comparative price levels, Sweden is now number 16 among the OECD countries. To a significant extent this low position could be explained by the high domestic price level in Sweden. The focus of this project is an empirical investigation of this area.

The pattern of high domestic prices fits well into the traditional Swedish model of a competitive and a sheltered sector where the exchange rate is determined mainly by cost effectiveness in the competitive sector while regulations and lack of competitiveness in the sheltered sector could give a domestic price level that is higher than in the competitor countries. One of the main questions in the project is how far this pattern goes in explaining the pattern of Swedish prices.

Responsible for the project: Ulf Jakobsson

Participating researcher: John Ekberg

3 Economics of the Welfare State

The analysis of the welfare state has mainly been preoccupied with problems of a static nature. The overall purpose of this research program at the Institute is to study the welfare state from an evolutionary point of view. How does the design of welfare systems influence the incentive structure and thereby the behavior of economic agents? In addition to this overall question, issues like capital accumulation in the welfare state and the role of institutions on economic performance will be considered.

3.1 Welfare State Dynamics

This project aims at developing a theoretical model of the long-run dynamic effects of welfare state policy on individual behavior. Particular attention is directed towards the interaction between social norms and incentives and their economic implications. The model will be related to empirical data for Sweden and the other Nordic countries. Another part of the project aims at analyzing the links between income distribution, employment and growth in the welfare state.

Responsible for the project: Prof. Assar Lindbeck and Prof. Jörgen Weibull

3.2 The Welfare State, Capital Formation and Growth

The focus of this project is the influence of the welfare system on investments in human and real capital. The overall hypothesis is that a generous welfare system has a negative impact on savings, which leads to decreasing investments and, hence, also affects growth rates and the income distribution. The project encompasses theoretical as well as empirical aspects of this problem.

Responsible for the project: Stefan Fölster

Participating researcher: Prof. Sam Peltzman and Georgi Trofimov

3.3 Institutions and Economic Performance

The implications of different institutional frameworks on economic performance have been a high-priority issue on the international research agenda for several years. This project tries to answer how economic efficiency and the allocation of knowledge are determined by the institutional setting. Positive as well as normative aspects are covered in this project.

Responsible for the project: Pavel Pelikan

Publications

Books

IUI Yearbook 1996/97. 1997. 43 pp.

IUI Yearbook 1995/96. 1996. 45 pp.

Kan myndigheter utvärdera sig själva? Catharina Barkman and Stefan Fölster. Ministry of Finance, ESO, Ds 1996:36. 316 pp.

Företagandets villkor. Spelregler för sysselsättning och tillväxt. Magnus Henrekson. Stockholm: SNS Förlag. 1996. 139 pp.

Firm Objectives, Controls and Organization: The Use of Information and the Transfer of Knowledge within the Firm. Gunnar Eliasson. Dordrecht: Kluwer Academic Publishers. 1996. 276 pp.

Multinational Restructuring, Internationalization and Small Economies: The Swedish Case. Thomas Andersson, Torbjörn Fredriksson and Roger Svensson. London: Routledge. 1996. 192 pp.

Financial Markets in Transition: Globalization, Investment and Economic Growth. Lars Oxelheim. London: Routledge. 1996. 434 pp.

Företagsstödet - Vad kostar det egentligen? Catharina Barkman and Stefan Fölster. Ministry of Finance, ESO, Ds 1995:14. 126 pp.

The Zimbabwean Manufacturing Sector: Current State and Future Development Potentials. Pontus Braunerhjelm and Gunnar Fors. Stockholm: SwedeCorp. 1995. 113 pp.

Evolutionary Game Theory. Jörgen W. Weibull. Cambridge: The MIT Press. 1995. 265 pp.

Technological Systems and Economic Performance: The Case of Factory Automation. Bo Carlsson (ed.). Dordrecht: Kluwer Academic Publishers. 1995. 494 pp.

IUI Yearbook 1995. 1995. 54 pp.

The Necessary Institutional Framework to Transform Formerly Planned Economies. Gunnar Eliasson, Tad Rybczynski and Clas Wihlborg. Stockholm: IUI. 1994. 59 pp.

Kompensationskontrakt i börsnoterade företag: En studie av ledningsgruppsmedlemmars inkomster och förmåner under 80-talet. Eva M. Meyerson. Stockholm: IUI. 1994. 48 pp.

Om förlängd skolgång. Gunnar Eliasson and Eugenia Kazamaki Ottersten. Stockholm: IUI. 1994. 123 pp.

Den högre utbildningens ekonomiska villkor och betydelse. Gunnar Eliasson. IUI Research Report No. 41.1994. 83 pp.

Konsten att (av)reglera i samhällets tjänst. Stefan Fölster. Stockholm: IUI. 1994. 28 pp.

Dissertations

54. *Multi-Market Competition and Coordination in Games*. Mattias Ganslandt. 1997. 54 pp. (Published as IUI Working Paper No. 484.)
53. *The Number and Size Distribution of Firms in Sweden and Other European Countries*. Dan Johansson. 1997. 60 pp. (Published as IUI Working Paper No 483.)
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51. *Foreign Activities of Swedish Multinational Corporations*. Roger Svensson. 1996. 176 pp.
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43. *The Impact of Ownership Structure and Executive Team Composition on Firm Performance: The Resolution of a Leadership Paradox*. Eva Meyerson. 1992. 176 pp.

Booklets

445. *Svensk stabiliseringspolitik*. Ulf Jakobsson. Reprint from *Marknad och politik*. Fjärde upplagan. Bo Södersten (red.). Stockholm: SNS Förlag. 1997. 48 pp.
444. *Kan spelteorin utvärderas empiriskt?* Gunnar Fors. Reprint from *Ekonomisk Debatt*, årg. 25, nr 4, 1997. 8 pp.
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440. *Olika betalt för lika arbete - en myt?* Eva M. Meyerson and Trond Petersen. Reprint from *Ekonomiska Samfundets Tidskrift*, nr 1, 1997. 11 pp.
439. *Evolution and Rationality: Some Recent Game-Theoretic Results*. Abhijit Banerjee and Jörgen W. Weibull. Discussion by Ken Binmore. Reprint from *Economics in a Changing World, Vol. 2, Microeconomics*. IEA Conference Vol. No. 108. Beth Allen (ed.). London: Macmillan Press Ltd. 1996. 28 pp.
438. *The Relation between Firm-Specific Intangibles and Exports*. Pontus Braunerhjelm. Reprint from *Economics Letters*, Vol. 53, No. 2, 1996. 7 pp.
437. *Nash Equilibrium and Evolution by Imitation*. Jonas Björnerstedt and Jörgen W. Weibull. Reprint from *The Rational Foundations of Economic Behaviour. Proceedings of the IEA Conference held in Turin, Italy*. Kenneth J. Arrow et al. (eds.). London: Macmillan Press Ltd. 1996. 17 pp.
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430. *Företagandets villkor och sysselsättningen*. Magnus Henrekson. Reprint from *På jakt efter faktor x*. Jan Herin (red.). Stockholm: SAF. 1996. 12 pp.
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Working Papers

1997

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Seminars

1997

Monday 16 June

Henrik D. Schulze, Uppsala University: *Can Tighter Money Now Mean Higher Inflation Now?*

Thursday 12 June

Mancur Olson, University of Maryland at College Park: *The Coase Theorem is False: Coase's Insight is Nonetheless Mainly Right*
Co-author: Avanish Dixit

Monday 2 June

James W. Albrecht and Susan B. Vroman, Georgetown University, and Kjetil Storesletten, The Institute for International Economic Studies: *An Equilibrium Model of Structural Unemployment*

Monday 26 May

Eva Meyerson, IUI, and Trond Petersen, University of California, Berkeley and University of Oslo: *Are Female Workers Less Productive than Male Workers? Productivity and the Gender Wage Gap*
Co-author: Vemund Snartland

Monday 12 May

Marcus Asplund, IUI and Stockholm School of Economics: *Firm Performance and Product Portfolio Management*
Co-authors: Rickard Sandin and Frode Steen

Monday 5 May

Mats Person, IIES: *Tax Arbitrage, Taxable Income and Labor Supply*
Co-author: Jonas Agell

Monday 28 April

Niclas Berggren, Stockholm School of Economics: *Economic Freedom and Equality: Friends or Foes?*

Monday 21 April

Lars Ljungqvist, Stockholm School of Economics: *The European Unemployment Dilemma*

Co-author: Thomas J. Sargent

Monday 14 April

Petter Lundvik, IUI: *Managerial Incentives, Institutions and Development*

Monday 7 April

James E. Anderson, Boston College: *Specialization and Security, I: Anarchy*

Co-author: Douglas Marcouiller

Monday 17 March

Nils-Petter Lagerlöf, IIES: *Strategic Saving and Non-Negative Gifts*

Wednesday 12 March

Eli Berman, Boston University: *Technological Change, Trade and Increasing Demand for Skills*

Monday 10 March

Eli Berman, Boston University: *Implications of Skill Biased Technological Change: International Evidence*

Co-authors: Stephen Machin and John Bound

Monday 3 March

Jonas Häckner and Sten Nyberg, Stockholm University: *Rent-Control and Prices of Owner Occupied Housing*

Monday 24 February

Joakim Sonnegård, Stockholm University: *An Experimental Examination of Parallelism in Single-Unit Vickrey and English Auctions*

Monday 17 February

Mahmood Arai, Stockholm University and Mats Kinnwall, Svenska Handelsbanken:

Does Inflation Really Inhibit Growth?

Monday 10 February

Fredrik Bergström, Stockholm School of Economics: *Public Capital Subsidies and the Performance of Firms*

Monday 3 February

Jorma Larimo, University of Vaasa: *The Impact of National Origin on the Survival of Foreign Affiliates: A Comparative Study of North European and Japanese Investors in the United States*

Co-authors: Jean-François Hennart, Harry Barkema, Gabriel R.G. Benito, Torben Pedersen and Ming Zeng

Monday 27 January

Johan Torstensson, Lund University: *Regional Integration, Scale Economies and Industry Location in the European Union*

Co-author: Marius Brühlhart

Monday 20 January

Thomas Lindh and Henry Ohlsson, Uppsala University: *Self-Employment and Wealth Inequality*

1996**Tuesday 17 and Thursday 19 December**

Paul Segerstrom, Michigan State University: *Human Capital and Knowledge in the New Growth Theory*

Monday 16 December

Paul Segerstrom, Michigan State University: *A Schumpeterian Model of Protection and Relative Wages*

Co-author: Elias Dinopoulos

Wednesday 11 December

Jean-Jacques Laffont, Institut d'Economie Industrielle, Toulouse: *Networking Competition: I. Overview and Nondiscriminatory Pricing*

Co-authors: Patrick Rey and Jean Tirole

Monday 9 December

Henrik Braconier, Lund University: *Growth with Costly Imitation*

Monday 2 December

Frode Steen, Norwegian School of Economics and Business

Administration: *Semicollusion in the Norwegian Cement Market*

Co-author: Lars Sjørgard

Monday 25 November

Fredrik Andersson, Lund University: *The Firm as a Pool of Reputations*

Monday 18 November

Marcus Asplund, Stockholm School of Economics and IUI: *Why, When and How Do Firms Adjust Their Prices: Evidence from Mortgage Loans Companies*

Monday 11 November

Karolina Ekholm, IUI: *R&D Subsidies in Industries with International Trade in Technological Knowledge*

Monday 4 November

Lars Persson, IIES: *Endogenous Mergers in Concentrated Markets*

Co-author: Henrik Horn

Monday 28 October

Eva Meyerson, IUI, and Trond Petersen, University of California, Berkeley:

Pay, Productivity, Gender and Age

Co-authors: Vemund Snartland and Karen Modesta Olsen

Petter Lundvik, IUI: *Intergenerational Accounting in an Open Economy*

Monday 21 October

Professor Mark Casson, The University of Reading: *The Organisation and Evolution of the Multinational Enterprise: An Information Cost Approach*

Monday 14 October

Jörgen Weibull, Stockholm School of Economics and IUI: *Managerial Incentives and Market Conditions*

Monday 7 October

Motty Perry, Hebrew University: *The Solomon Dilemma and other Allocation Problems*

Co-author: Philip J. Reny

Wednesday 2 October

Jan Hatzius, London School of Economics: *Foreign Direct Investment, Capital Formation and Labour Costs: Theory and Evidence for Germany*

Monday 30 September

Kjetil Storesletten, The Institute for International Economic Studies: *Persistent Idiosyncratic Income Shocks and Incomplete Markets*

Co-authors: Chris Telmer and Amir Yaron

Monday 23 September

Julia Lane, The World Bank and The American University: *Firms, Jobs and the Dynamics of Earnings Inequality: 1985-1994*

Co-authors: Robert I. Lerman, David Stevens and Qing-Hua Zhao

Monday 9 September

Stefan Fölster, IUI:

Does the Welfare State Crowd Out Entrepreneurs?

Co-author: Georgi Trofimov

Monday 2 September

Frida Eklund, Uppsala University: *Taxation and Growth: Are Some Taxes Better than Others?*